

Idaho Legislative Audits
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Department of Environmental Quality

Management Report on Internal Control

Issued: July 26, 2005
Fiscal Year: 2002, 2003, and 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Idaho Department of Environmental Quality's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The two findings and recommendations noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Department's internal control structure and operating efficiency. These matters are discussed in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS. We have summarized the findings and recommendations below. The recommendations are made to assist management in fulfilling its responsibility to establish and maintain adequate internal controls.

FINDING #1. The Department's use of temporary employees may not be in compliance with laws, rules, and regulations.

The Department hires temporary employees for eight months of the year and then pays a temporary employment agency to keep these same employees at the same job the remaining four months of the year. The use of temporary employees in this manner increases the risk of a potential lawsuit in which employees may contend that they are actually full-time employees and, therefore, should receive all the benefits of full-time employees. Also, using temporary employees in this manner may not be in accordance with State policy and Internal Revenue Service regulations related to employee/employer status.

We recommend that the Department seek assistance from the Division of Financial Management, the Division of Human Resources, and the State Controller's Office to resolve this issue.

FINDING #2. Billing and accounting errors cause some information to be incomplete and inaccurate.

The Department's accounting is generally good, considering the large amount of accounting necessary for its many different programs. We found few accounting errors, but some of those found indicate that controls in the permit billing system should be improved. In one instance, the Department did not bill for, nor collect, \$10,000 when it issued an air permit.

We recommend that the Department review its internal control systems and make improvements. Specifically, we recommend that it reconcile air permits issued to air permits billed, and review postings to customer accounts to ensure they are correct. **We also recommend** that the Department bill for the \$10,000 outstanding for the issuance of the air permit.

PRIOR FINDINGS AND RECOMMENDATIONS. This is the first report on internal controls since the Department was established in fiscal year 2001. There were no findings and recommendations related to the Department's activities when included in the Idaho Department of Health and Welfare's report on internal controls.

AGENCY RESPONSE. The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. Total revenue for fiscal year 2004 was about \$30 million, of which \$22 million was from federal grants. The other \$8 million is comprised of regulatory fees, penalties, and cost recoveries. Expenditures in fiscal year 2004 were approximately \$42 million, of which \$22 million was for personnel costs.

The Department's main operating fund is the Department of Environmental Quality Fund 0225. The General Fund appropriation of approximately \$15 million was transferred directly into this fund. In some instances, revenue is received in other Department funds and is transferred to Fund 0225, where it is expended. Other funds material to the operation of the Department include the Air Quality Permitting Fund (0186), which primarily receives regulatory fees; the Public Water Supervision Fund (0191), which receives fees assessed on public drinking water systems; and the Water Pollution Control Fund (0200), which receives \$4.8 million from sales taxes and interest earnings. The Agricultural Smoke Management Fund (0183) was transferred to the Idaho Department of Agriculture in fiscal year 2004.

Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here.

DEPARTMENT OF ENVIRONMENTAL QUALITY– FINANCIAL SUMMARY 2002

Fund	Title	Beginning Appropriation or Cash	Receipts and Transfers In	Disbursements and Transfers Out	Ending Appropriation or Cash
0183	Agricultural Smoke Management	\$46,852	\$7,340	\$4,536	\$49,656
0185	Hazardous Waste Emergency	910,391	186,956	598,571	498,776
0186	Idaho Air Quality Permitting	1,917,157	1,110,423	1,711,736	1,315,844
0187	Big Payette Lake Water Quality	11,285	5,000	430	15,855
0191	Public Water System Supervision Fund	688,709	1,085,438	1,426,198	347,949
0200	Water Pollution Control Fund	5,173,834	5,268,310	4,320,000	6,122,144
0201	Environmental Remediation Fund	7,243,019	954,828	991,713	7,206,134
0225	DEQ Fund	2,780,646	41,004,391	42,887,786	897,251
0489	Health and Welfare Trust Account	1,601,607	(118,344)	0	1,483,263
0511	Bunker Hill Consent Decree Trust Fund	1,929,832	168,668	161,283	1,937,217

DEPARTMENT OF ENVIRONMENTAL QUALITY - FINANCIAL SUMMARY 2003

Fund	Title	Beginning Appropriation or Cash	Receipts and Transfers In	Disbursements and Transfers Out	Ending Appropriation or Cash
0183	Agricultural Smoke Management	\$49,656	\$5,462	\$4,568	\$50,550
0185	Hazardous Waste Emergency	498,776	113,789	186,778	425,787
0186	Idaho Air Quality Permitting	1,315,844	1,537,067	1,603,275	1,249,636
0187	Big Payette Lake Water Quality	15,855	8,110	3,935	20,030
0191	Public Water System Supervision Fund	347,949	1,386,544	939,799	794,694
0200	Water Pollution Control Fund	6,122,144	4,627,330	8,912,900	1,836,574
0201	Environmental Remediation Fund	7,206,134	1,087,543	728,884	7,564,793
0225	DEQ Fund	897,251	37,363,492	37,937,269	323,474
0489	Health and Welfare Trust Account	1,483,263	830,888	0	2,314,151
0511	Bunker Hill Consent Decree Trust Fund	1,937,217	666,442	175,000	2,428,659

DEPARTMENT OF ENVIRONMENTAL QUALITY – FINANCIAL SUMMARY 2004

Fund	Title	Beginning Appropriation or Cash	Receipts and Transfers In	Disbursements and Transfers Out	Ending Appropriation or Cash
0183	Agricultural Smoke Management	\$50,550	\$38,399	\$88,949	\$0
0185	Hazardous Waste Emergency	425,787	200,555	36,872	589,470
0186	Idaho Air Quality Permitting	1,249,636	1,651,520	1,299,030	1,602,126
0187	Big Payette Lake Water Quality	20,030	50	1,081	18,999
0191	Public Water System Supervision Fund	794,694	1,309,095	781,234	1,322,555
0200	Water Pollution Control Fund	1,836,574	4,826,321	6,212,702	450,193
0201	Environmental Remediation Fund	7,564,793	684,151	609,011	7,639,933
0225	DEQ Fund	323,474	41,943,751	41,524,907	742,318
0489	Health and Welfare Trust Account	2,314,151	1,214,876	0	3,529,027
0511	Bunker Hill Consent Decree Trust Fund	2,428,659	262,590	0	2,691,249

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Toni Hardesty, and her staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

Report IC24504

<p>For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.</p>
